

**CITY OF PELLA, IOWA**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**June 30, 2013**



**City of Pella, Iowa**  
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**June 30, 2013**

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**City of Pella, Iowa  
City Officials  
Year Ending June 30, 2013**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Before January, 2013</b>		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2014
Ronda Brown	City Clerk	January, 2014
<b>After January, 2013</b>		
James Mueller	Mayor	January, 2016
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Dave Vander Horst	Council Member	January, 2016
Harold Van Stryland	Council Member	January, 2016
Larry J. Peterson	Council Member	January, 2016
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2014
Ronda Brown	City Clerk	January, 2014

## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
City of Pella, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-10 and 48-51 be presented to supplement the basic financial

statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 6, 2014 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pella's internal control over financial reporting and compliance.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

March 6, 2014

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$105,745,877 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$44,125,576.
- Assets of business type activities exceeded liabilities by \$61,620,301.
- The revenues of the governmental activities exceeded expenses by \$2,501,040.
- Within the City's business-type activities, expenses exceeded revenues by \$2,197,420. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2013, the general fund had an unrestricted fund balance of \$2,055,057 or working capital of nearly 42% of annual expenditures.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

**The government-wide financial statements are divided into two categories:**

**Governmental activities** - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

**Business type activities** - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital project fund, both of which are considered to be major funds. Data from the other twenty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

**Proprietary funds** can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$105,745,877 at the close of the most recent fiscal year.

The most significant portion of the city's net assets (87.21%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending. A portion of the City's net assets (4.12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$9,160,054 may be used to meet the City's ongoing obligations to citizens and creditors.



City of Pella, Iowa  
Management Discussion and Analysis  
June 30, 2013

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Current and other assets	12,318,471	12,321,820	10,487,723	15,190,370	22,806,194	27,512,190
Capital assets	40,848,033	39,510,448	60,837,051	57,499,861	101,685,084	97,010,309
Total assets	53,166,504	51,832,268	71,324,774	72,690,231	124,491,278	124,522,499
Current Liabilities	6,333,906	6,700,685	3,657,771	4,096,951	9,991,677	10,797,636
Long-term liabilities	2,707,022	3,507,047	6,046,702	4,775,559	8,753,724	8,282,606
Total Liabilities	9,040,928	10,207,732	9,704,473	8,872,510	18,745,401	19,080,242
Net assets:						
Invested in capital assets, net of related debt	37,877,294	35,726,179	54,348,617	52,556,521	92,225,911	88,282,700
Restricted assets	4,002,747	3,587,034	357,165	440,479	4,359,912	4,027,513
Unrestricted assets	2,245,535	2,311,323	6,914,519	10,820,721	9,160,054	13,132,044
Total net assets	\$ 44,125,576	\$ 41,624,536	\$ 61,620,301	\$ 63,817,721	\$ 105,745,877	\$ 105,442,257

  

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues:						
Charges for service	\$ 600,901	\$ 620,474	\$ 21,076,051	\$ 22,550,412	\$ 21,676,952	23,170,886
Operating grants, contributions	1,068,258	1,056,467	-	7,878	1,068,258	1,064,345
Capital grants, contributions	1,097,186	893,637	-	-	1,097,186	893,637
General revenues:						
Property taxes	3,851,629	3,804,765	-	-	3,851,629	3,804,765
Local option taxes	1,179,828	1,350,972	-	-	1,179,828	1,350,972
TIF	1,460,029	1,500,001	-	-	1,460,029	1,500,001
Other Taxes	458,477	452,189	-	-	458,477	452,189
Grants & contributions	43,131	47,027	-	-	43,131	47,027
Payment in lieu of taxes	445,739	440,031	-	-	445,739	440,031
Investment earnings	13,504	19,933	44,938	82,657	58,442	102,590
Miscellaneous	5	-	1,694,071	312,296	1,694,076	312,296
Gain(Loss) on sale of assets	20,405	(14)	3,867	9,809,279	24,272	9,809,265
Transfers	200,363	241,444	(200,363)	(241,444)	-	-
Total revenues	10,439,455	10,426,926	22,618,564	32,521,078	33,058,019	42,948,004
<b>Expenses</b>						
Program expenses:						
General government	667,226	627,040	-	-	667,226	627,040
Public Safety	2,040,594	1,910,503	-	-	2,040,594	1,910,503
Public Works	1,924,567	1,808,141	-	-	1,924,567	1,808,141
Culture & Recreation	2,388,850	2,217,756	-	-	2,388,850	2,217,756
Community & Economic Development	621,028	580,694	-	-	621,028	580,694
Facilities & Acquisition	167,816	161,725	-	-	167,816	161,725
Long-term debt and interest cost	128,334	154,111	-	-	128,334	154,111
Water			2,000,589	2,036,593	2,000,589	2,036,593
Wastewater			2,266,770	2,087,578	2,266,770	2,087,578
Sanitation			504,061	534,752	504,061	534,752
Electric			20,044,564	19,845,927	20,044,564	19,845,927
Internal Service					-	-
Total expenses	7,938,415	7,459,970	24,815,984	24,504,850	32,754,399	31,964,820
Change in net assets	\$ 2,501,040	2,966,956	\$ (2,197,420)	\$ 8,016,228	\$ 303,620	10,983,184

## FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$6,207,297 at June 30, 2013. This was an increase of \$412,300 from the prior year and was due to the building of revenues for future capital projects. A summary of each of the government major fund balances is as follows:

### General Fund

The general fund's balance increased by \$1,150 in Fiscal Year 2013. As a result, our fund balance increased to \$2,057,037 which represents approximately 42% of annual expenditures. The modest increase was attributed to concerted effort to maintain fund balances with through disciplined fiscal management. .

### Capital Projects Funds

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

**Capital Facilities Fund** had a fund balance of \$144,261 at June 30, 2013. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

**Other Capital Facility Funds** had a total fund balance of \$0 at June 30, 2013.

### Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net assets of the enterprise funds at June 30, 2013 totaled \$61,620,301 of which \$6,914,519 is unrestricted. Overall, net assets for the enterprise funds decreased by \$2,197,420 largely due to the decommissioning of the City's power plant.

The net assets of internal service funds, which is comprised of the City's health insurance trust fund decreased from \$749,608 to \$741,633. The majority of the increase was due to slightly higher than expected claims for the year.

## BUDGETARY HIGHLIGHTS

The FY 13 budget was amended on April 16, 2013 for the following reasons:

- Expenditures were increased \$110,000 for the repair of one substation transformer at the Vermeer Substation.
- Expenditures were increased \$100,000 for replenishment of the electric transformer inventory.
- Expenditures were increased \$225,000 for costs associated with the power plant decommissioning.
- Expenditures were decreased \$283,000 for lower than anticipated costs associated with the Diesel Plant Rice Project.
- Expenditures were increased \$15,372 for the planting of additional street flower beds.
- Expenditures were increased \$905,294 for the City's portion of the Pella Sports Park expenditures.
- Expenditures were increased \$10,000 for the aviary at the library funded through gifts.
- Expenditures were increased \$15,777 for new computers and software for the Aquatic Center.
- Expenditures were increased \$36,700 for a new tractor to replace old equipment which was no longer repairable.
- Expenditures were increased \$22,892 to replace and repair the Molengracht Parking Garage lighting.
- Expenditures were increased \$146,600 for the reconstruction of Hazel Street.
- Expenditures were increased \$127,850 for the reconstruction of the Washington Street/Broadway Street intersection.
- Expenditures were increased \$11,000 for emergency water main repairs.
- Expenditures were increased \$36,000 for the installation of a larger water main on Main Street.
- Expenditures were increased \$12,411 for a new shallow well #5 pump, which failed during the cleaning process.
- Expenditures were increased \$55,000 for increased use of chemical bioxide due to drought conditions.
- Expenditures were increased \$17,000 for radios for the programmable logic controllers water treatment plant and towers.
- Expenditures were increased \$27,850 for several small miscellaneous expenditures.

- Timing differences for expenses that were budget for fiscal year 2012 but will be expended in fiscal year 2013 accounted for \$969,585 increase in expenditures.
- Timing differences for expenses that were budget for fiscal year 2013 but will be expended in fiscal year 2014 accounted for \$2,794,314 decrease in expenditures.
- The July 1, 2012 estimated beginning fund balance used for the budget was increased by \$9,500,595 to match the actual ending fund balance at June 30, 2012.

None of the above variations are expected to have a significant effect on future services or liquidity.

## **CAPITAL ASSETS**

### **Capital Assets**

Major construction projects and associated expenses for the year included the following:

#### **Governmental Activities**

West First Street Reconstruction was completed \$225,858  
East Third Street Reconstruction was completed \$152,942  
Purchase of a new street sweeper for the Public Works Department \$209,880  
Continue construction of the Pella Sports Park \$1,874,609  
Purchase of a new Police Vehicle for the Police Department \$37,441  
Reconstruction of the Washington Street and Broadway Street intersection \$91,505  
Engineering and Design Expense related to the rehabilitation of the indoor swimming pool \$115,767

#### **Water Fund**

South Water Tower painting \$205,521  
East Third Street water distribution main replacement \$59,567  
West First Street water distribution main replacement \$40,157  
Early stage development of the membrane treatment addition \$68,232

#### **Wastewater Fund**

Finish replacing sewer mains under East Third Street \$286,709  
IDNR bypass mandate improvements \$1,488,453  
Required repair of the screw pump \$62,152  
Wesley Life sewer dedicated \$151,603

#### **Electric Fund**

Finish work on the Clark Street Substation \$2,339,751  
Finish work on the Electric SE switching station \$265,837  
Purchased Freightliner Aerial Truck \$155,000  
Required diesel plant RICE upgrades \$561,147  
Repair of the Vermeer transformer \$112,340

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

## **DEBT ADMINISTRATION**

At the close of fiscal year ended June 30, 2013, the City had bonds outstanding of \$9,609,628. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

The City approved a long-term power supply contract with Missouri River Energy Services (MRES) beginning April 1, 2012. The agreement also included the sale of the City's 1.33% ownership share of Walter Scott Unit 4 for \$26.8 million. With the proceeds of Walter Scott 4, the City defeased three revenue bonds for a total of \$12.1 million. As of June 30, 2013, \$600,000 of bonds considered defeased are still outstanding.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2011. The current general obligation debt limitation for the City is \$33,615,304 and at June 30, 2013 there was \$3,115,000 of outstanding general obligation debt. Therefore, the city's available debt margin is \$30,500,304 or 90.73%.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

While the City has experienced stagnate growth in valuation of existing residential and commercial valuations, the past two years have resulted in considerable growth in new residential and commercial construction. This continued growth has led to unemployment rates in Marion County of 4.5%, slightly under the State average of 4.7%. While the local economy continues to expand at a conservative rate, the increasing need to replace aging infrastructure, respond to unfunded mandates by federal and state regulatory agencies and the continuing need to pursue long term water supply plan enhancements may eventually necessitate utility rates increases.

Also of concern is the State's legislative changes to the property tax system, primarily the commercial property and industrial tax classification. While the City's balances maintain the necessary reserves and flexibility to accommodate modest changes, reductions in the ability to collect property tax or reductions in intergovernmental funds may impact the City's ability to continue to maintain or enhance service levels.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2014 Budget:

### **Property Taxes**

The City was able to maintain its property tax rate slightly below the historically stable rate of \$10.20/\$1,000 of taxable valuation. The expected rate for FY 2015 continues the City's commitment to maintaining one of the lowest property tax rates in the state.

### **Electric Rates**

The fiscal year 2014 budget maintains the current electric rates; however the City may need to enact an Energy Cost Adjustment of approximately 2% in FY 2015 to fund the recent 5.3% power supply increase from Missouri River Energy Services (MRES). It is important to note that the increase received from MRES is needed to fund the proposed \$260 million Lake Red Rock Hydroelectric Facility.

### **Water Rates**

For fiscal year 2014, the City expects no rate increase in water rates. However, if Council proceeds with implementation of the City's \$14 million water supply plan, water rates will need to be increased approximately 20-30% to fund the plan.

### **Wastewater Rates**

In fiscal year 2013 and 2014, modest rate increases were necessary to fund the Iowa Department of Natural Resources (IDNR) mandates to reduce bypassing.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the Finance Director, 825 Broadway Street, Pella, Iowa 50219.

## **Financial Statements**

**City of Pella, Iowa**  
**Statement of Net Position**  
**June 30, 2013**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash, cash equivalents and pooled investments	\$ 2,403,167	6,194,476	8,597,643
Receivables:			
Property tax:			
Delinquent	17,387	-	17,387
Succeeding year	4,315,304	-	4,315,304
Tax increment financing:			
Delinquent	918	-	918
Succeeding year	420,009	-	420,009
Local option sales tax	154,224	-	154,224
Accounts (net of allowance for uncollectibles)	46,501	2,186,646	2,233,147
Accrued interest	159	495	654
Due from other governments	58,503	-	58,503
Inventories	-	845,158	845,158
Deposits	-	70,000	70,000
Prepaid expenses	46,106	-	46,106
Restricted assets:			
Cash and pooled investments	4,853,347	1,099,692	5,953,039
Deferred charge (issuance costs)	2,846	91,256	94,102
Capital assets(net of accumulated depreciation)	40,848,033	60,837,051	101,685,084
<b>Total assets</b>	<b>53,166,504</b>	<b>71,324,774</b>	<b>124,491,278</b>
<b>Liabilities</b>			
Excess of warrants over bank balance	\$ 2,711	-	2,711
Accounts payable and accrued liabilities	464,352	2,585,703	3,050,055
Salaries and benefits payable	163,719	62,181	225,900
Deposits	600	106,527	107,127
Accrued interest payable	9,426	14,066	23,492
Deferred revenue:			
Succeeding year property tax	4,315,304	-	4,315,304
Succeeding year tax increment financing	420,009	-	420,009
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	850,000	-	850,000
Revenue bonds payable	-	810,000	810,000
Unamortized bond premium	13,118	-	13,118
Compensated absences	94,667	79,294	173,961
Portion due or payable after one year:			
General obligation bonds	2,265,000	-	2,265,000
Revenue bonds payable (net of unamortized discounts)	-	5,678,434	5,678,434
Unamortized bond premium	12,025	-	12,025
Compensated absences	362,621	317,176	679,797
Net OPEB liability	67,376	51,092	118,468
<b>Total liabilities</b>	<b>9,040,928</b>	<b>9,704,473</b>	<b>18,745,401</b>

**City of Pella, Iowa**  
**Statement of Net Position**  
**June 30, 2013**

*Continued from previous page.*

**Net Position**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Net investment in capital assets	37,877,294	54,348,617	92,225,911
Restricted for:			
Expendable:			
Debt service and improvements	-	254,000	254,000
Special Purposes	3,860,767	-	3,860,767
Other	-	33,165	33,165
Non-expendable:			
Permanent Trust	140,000	-	140,000
Prepaid expenditures	1,980	-	1,980
Deposits	-	70,000	70,000
Unrestricted	2,245,535	6,914,519	9,160,054
<b>Total net position</b>	<b>\$ 44,125,576</b>	<b>61,620,301</b>	<b>105,745,877</b>

See notes to financial statements.

## Exhibit B

**City of Pella, Iowa**  
**Statement of Activities**  
**Year ended June 30, 2013**

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Public safety	\$ 2,040,594	67,611	27,914	-
Public works	1,924,567	61,904	994,271	-
Culture and recreation	2,388,850	370,537	46,073	-
Community and economic development	621,028	2,732	-	-
General government	667,226	98,117	-	-
Long-term debt costs and interest	128,334	-	-	-
Facilities and acquisition	167,816	-	-	1,097,186
Total governmental activities	7,938,415	600,901	1,068,258	1,097,186
Business type activities:				
Water	2,000,589	2,039,904	-	-
Wastewater	2,266,770	1,859,345	-	-
Sanitation	504,061	622,565	-	-
Electric	20,044,564	16,554,237	-	-
Total business type activities	24,815,984	21,076,051	-	-
Total primary government	\$ 32,754,399	21,676,952	1,068,258	1,097,186
General Revenues:				
Taxes:				
Property taxes				
Local option sales tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position beginning of year				
Net position end of year				
See notes to financial statements.				



Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,945,069)	-	(1,945,069)
(868,392)	-	(868,392)
(1,972,240)	-	(1,972,240)
(618,296)	-	(618,296)
(569,109)	-	(569,109)
(128,334)	-	(128,334)
929,370	-	929,370
(5,172,070)	-	(5,172,070)
-	39,315	39,315
-	(407,425)	(407,425)
-	118,504	118,504
-	(3,490,327)	(3,490,327)
-	(3,739,933)	(3,739,933)
(5,172,070)	(3,739,933)	(8,912,003)
3,851,629	-	3,851,629
1,179,828	-	1,179,828
1,460,029	-	1,460,029
458,477	-	458,477
43,131	-	43,131
445,739	-	445,739
13,504	44,938	58,442
5	1,694,071	1,694,076
20,405	3,867	24,272
200,363	(200,363)	-
7,673,110	1,542,513	9,215,623
2,501,040	(2,197,420)	303,620
41,624,536	63,817,721	105,442,257
\$ 44,125,576	61,620,301	105,745,877

## Exhibit C

**City of Pella, Iowa**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	Major Funds		Non-major	
		Capital	Other	
	General	Projects	Governmental	Total
			Funds	
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$ 2,319,427	311,784	3,902,836	6,534,047
Receivables:				
Property tax:				
Delinquent	13,558	-	3,829	17,387
Succeeding year	3,444,575	-	870,729	4,315,304
Tax increment financing:				
Delinquent	-	-	918	918
Succeeding year	-	-	420,005	420,005
Local option sales tax	-	-	154,224	154,224
Accounts receivable, miscellaneous	9,352	34,382	2,767	46,501
Accrued interest	91	9	19	119
Due from other governments	58,503	-	-	58,503
Prepaid expenditures	1,980	-	-	1,980
<b>Total assets</b>	<b>\$ 5,847,486</b>	<b>346,175</b>	<b>5,355,327</b>	<b>11,548,988</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Excess of warrants over bank balance	\$ -	-	2,711	2,711
Accounts payable and accrued liabilities	193,230	201,914	44,207	439,351
Salaries and benefits payable	152,644	-	11,076	163,720
Customer deposits	-	-	600	600
Deferred revenue:				
Succeeding year property tax	3,444,575	-	870,729	4,315,304
Succeeding year tax increment financing	-	-	420,005	420,005
<b>Total liabilities</b>	<b>3,790,449</b>	<b>201,914</b>	<b>1,349,328</b>	<b>5,341,691</b>
Fund balances:				
Nonspendable:				
Prepaid expenditures	1,980	-	-	1,980
Permanent Trust	-	-	140,000	140,000
Restricted for:				
Debt Service	-	-	5,232	5,232
Capital projects	-	144,261	-	144,261
Other purposes	-	-	3,860,767	3,860,767
Unassigned	2,055,057	-	-	2,055,057
<b>Total fund balances</b>	<b>2,057,037</b>	<b>144,261</b>	<b>4,005,999</b>	<b>6,207,297</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,847,486</b>	<b>346,175</b>	<b>5,355,327</b>	<b>11,548,988</b>

See notes to financial statements.

Exhibit D

**City of Pella, Iowa**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Position**  
**June 30, 2013**

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<b>Total fund balances of governmental funds (Exhibit C)</b>	<b>\$ 6,207,297</b>
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***Amounts reported for governmental activities in the statement of net assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$61,461,540 and the accumulated depreciation is \$20,613,507.	40,848,033
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An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net position.	741,633
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Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), bond issuance costs (initial and amortized), compensated absences payable, other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,671,387)</u>
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<b>Net position of governmental activities (Exhibit A)</b>	<b><u>\$ 44,125,576</u></b>
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See notes to financial statements.

## Exhibit E

**City of Pella, Iowa**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2013**

	Major Funds		Non-major	
	General	Capital Projects	Other Governmental Funds	Totals
Revenues:				
Property tax	\$ 2,982,219	-	869,410	3,851,629
Tax increment financing	-	-	1,460,029	1,460,029
Local option sales tax	-	-	944,294	944,294
Other city taxes	454,404	-	4,073	458,477
Licenses and permits	93,058	-	-	93,058
Use of money and property	44,132	-	5,699	49,831
Intergovernmental	495,708	15,727	1,253,146	1,764,581
Charges for services	405,918	-	60	405,978
Miscellaneous	72,293	1,081,459	37,058	1,190,810
Total revenues	4,547,732	1,097,186	4,573,769	10,218,687
Expenditures:				
Operating:				
Public safety	1,846,475	-	669	1,847,144
Public works	322,432	-	791,856	1,114,288
Culture and recreation	1,846,476	-	63,451	1,909,927
Community and economic development	390,767	-	229,498	620,265
General government	520,791	-	-	520,791
Debt service	-	-	962,228	962,228
Capital projects	-	3,052,512	-	3,052,512
Total expenditures	4,926,941	3,052,512	2,047,702	10,027,155
Excess (deficiency) of revenues over (under) expenditures	(379,209)	(1,955,326)	2,526,067	191,532
Other financing sources (uses):				
Operating transfers in	882,159	1,928,156	1,014,550	3,824,865
Operating transfers (out)	(501,800)	-	(3,122,702)	(3,624,502)
Unrealized gains (losses) on investments	-	-	(295)	(295)
Proceeds from sale of assets	-	20,700	-	20,700
Total other financing sources (uses)	380,359	1,948,856	(2,108,447)	220,768
Change in fund balances	1,150	(6,470)	417,620	412,300
Fund balances beginning of year	2,055,887	150,731	3,588,379	5,794,997
Fund balances end of year	\$ 2,057,037	144,261	4,005,999	6,207,297

See notes to financial statements.

**City of Pella, Iowa**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds to the Statement of Activities**  
**Year ended June 30, 2013**

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**Change in fund balances - Total governmental funds (Exhibit E)** **\$ 412,300**

***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 2,884,696	
Depreciation expense	<u>(1,547,111)</u>	1,337,585

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position. Also governmental funds report the effect of bond issuance costs and premiums, whereas these amounts are deferred and amortized in the Statement of Activities.

Current year items are as follows:

Principal payments of general obligation bonds	820,000	
Amortization of bond premiums	13,118	
Amortization of bond issuance costs	<u>(1,484)</u>	831,634

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	3,323	
Employer funds for benefits shifted from other funds	619,148	
Employee benefits collected through withholding	199,386	
Claims and premiums paid out	<u>(829,832)</u>	(7,975)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(58,357)	
Other postemployment benefits	(16,407)	
Interest on long-term debt	<u>2,260</u>	(72,504)

**Change in net position of governmental activities (Exhibit B)** **\$ 2,501,040**

See notes to financial statements.

## Exhibit G

**City of Pella, Iowa**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
<b>Assets</b>						
Current assets:						
Cash, cash equivalents and pooled investments	\$ 986,208	372,506	4,745,790	89,972	6,194,476	722,467
Receivables:						
Accrued interest	90	11	387	7	495	40
Trade (net of allowance for uncollectible)	174,945	169,736	1,788,035	53,930	2,186,646	-
Inventories	100,647	120,009	624,502	-	845,158	-
Security Deposit			70,000		70,000	-
Prepaid expenses	-	-	-	-	-	44,126
Restricted assets:						
Cash and pooled investments	624,000	266,000	176,527	33,165	1,099,692	-
Total current assets	1,885,890	928,262	7,405,241	177,074	10,396,467	766,633
Non-current assets:						
Deferred charge (issuance costs)	6,252	85,004	-	-	91,256	-
Capital assets (net of accumulated depreciation/amortization)	7,151,755	12,410,184	41,275,112	-	60,837,051	-
Total non-current assets	7,158,007	12,495,188	41,275,112	-	60,928,307	-
<b>Total assets</b>	<b>\$ 9,043,897</b>	<b>13,423,450</b>	<b>48,680,353</b>	<b>177,074</b>	<b>71,324,774</b>	<b>766,633</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 160,692	87,729	2,337,235	47	2,585,703	25,000
Salaries and benefits payable	15,727	10,377	35,477	600	62,181	-
Accrued interest payable	2,050	12,016	-	-	14,066	-
Compensated absences payable	19,312	18,253	41,588	141	79,294	-
Payable from restricted assets:						
Revenue notes	370,000	440,000	-	-	810,000	-
Deposits	-	-	106,527	-	106,527	-
Total current liabilities	567,781	568,375	2,520,827	788	3,657,771	25,000
Noncurrent liabilities:						
Revenue notes (net of unamortized discount)	288,806	5,389,628	-	-	5,678,434	-
Compensated absences payable	77,247	73,011	166,352	566	317,176	-
Net OPEB liability	12,240	11,356	26,454	1,042	51,092	-
Total noncurrent liabilities	378,293	5,473,995	192,806	1,608	6,046,702	-
<b>Total liabilities</b>	<b>946,074</b>	<b>6,042,370</b>	<b>2,713,633</b>	<b>2,396</b>	<b>9,704,473</b>	<b>25,000</b>
<b>Net Position</b>						
Net investment in capital assets	6,492,949	6,580,556	41,275,112	-	54,348,617	-
Restricted for:						
Nonexpendable:						
Security Deposit	-	-	70,000	-	70,000	-
Expendable:						
Revenue note retirement	254,000	-	-	-	254,000	-
Other	-	-	-	33,165	33,165	-
Unrestricted	1,350,874	800,524	4,621,608	141,513	6,914,519	741,633
<b>Total net position</b>	<b>\$ 8,097,823</b>	<b>7,381,080</b>	<b>45,966,720</b>	<b>174,678</b>	<b>61,620,301</b>	<b>741,633</b>

See notes to financial statements

**City of Pella, Iowa**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 2,039,904	1,859,345	16,554,237	622,565	21,076,051	-
Miscellaneous	34,097	18,126	1,394,482	-	1,446,705	-
Internal service charges	-	-	-	-	-	818,534
Total operating revenues	2,074,001	1,877,471	17,948,719	622,565	22,522,756	818,534
Operating expenses:						
Business type activities:						
Personnel services	702,941	529,894	1,779,974	44,090	3,056,899	-
Contractual	58,519	33,170	-	436,358	528,047	669,969
Franchise fees	50,851	37,205	-	-	88,056	-
Materials and Supplies	548,155	636,717	3,720,499	23,613	4,928,984	-
Purchased power	-	-	11,936,746	-	11,936,746	-
Payments in lieu of taxes	-	-	445,739	-	445,739	-
Payments in lieu of services	-	-	146,103	-	146,103	-
Depreciation/Amortization	596,813	856,322	1,496,074	-	2,949,209	-
Claims expense	-	-	-	-	-	159,863
Total operating expenses	1,957,279	2,093,308	19,525,135	504,061	24,079,783	829,832
Operating income (loss)	116,722	(215,837)	(1,576,416)	118,504	(1,557,027)	(11,298)
Non-operating revenues (expenses):						
Decommissioning costs	-	-	(519,429)	-	(519,429)	-
Debt costs and interest	(43,310)	(173,462)	-	-	(216,772)	-
Interest income	6,984	1,556	36,037	361	44,938	3,323
Rents	41,400	15,337	-	-	56,737	-
Sale/disposal of fixed assets	-	-	3,867	-	3,867	-
Miscellaneous revenues	33,116	151,603	-	5,910	190,629	-
Net non-operating revenues (expenses)	38,190	(4,966)	(479,525)	6,271	(440,030)	3,323
Income (loss) before operating transfers	154,912	(220,803)	(2,055,941)	124,775	(1,997,057)	(7,975)
Transfers in, (out)	(13,800)	(173,610)	42,007	(54,960)	(200,363)	-
Net other financing sources (uses)	(13,800)	(173,610)	42,007	(54,960)	(200,363)	-
Change in net position	141,112	(394,413)	(2,013,934)	69,815	(2,197,420)	(7,975)
Net position beginning of year	7,956,711	7,775,493	47,980,654	104,863	63,817,721	749,608
Net position end of year	\$ 8,097,823	7,381,080	45,966,720	174,678	61,620,301	741,633

See notes to financial statements.

## Exhibit I

**City of Pella, Iowa**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year ended June 30, 2013**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers and users	\$ 2,100,218	1,874,432	18,288,660	621,262	22,884,572	-
Cash received from intergovernmental sources	-	-	-	-	-	-
Cash received from internal service charges	-	-	-	-	-	818,534
Cash paid for personal services	(716,542)	(522,903)	(1,854,631)	(46,533)	(3,140,609)	-
Cash paid to suppliers	(591,841)	(1,113,452)	(16,175,563)	(500,243)	(18,381,099)	(849,349)
Replacement tax, transfers	-	-	(445,739)	-	(445,739)	-
Net cash provided (used) by operating activities	791,835	238,077	(187,273)	74,486	917,125	(30,815)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	74,516	166,940	-	5,910	247,366	-
Transfers in (out)	(13,800)	(173,610)	42,007	(54,960)	(200,363)	-
Net cash provided (used) by non-capital financing activities	60,716	(6,670)	42,007	(49,050)	47,003	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(523,493)	(2,097,765)	(3,665,141)	-	(6,286,399)	-
Decommissioning costs	-	-	(519,429)	-	(519,429)	-
Principal paid on revenue notes	(350,000)	(256,000)	-	-	(606,000)	-
Proceeds from revenue bonds issued	-	2,147,860	-	-	2,147,860	-
Interest costs (not capitalized)	(37,380)	(154,440)	-	-	(191,820)	-
Other long-term debt costs	(6,995)	(16,614)	-	-	(23,609)	-
Proceeds from sale of capital assets	-	-	3,867	-	3,867	-
Net cash used by capital and related financing activities	(917,868)	(376,959)	(4,180,703)	-	(5,475,530)	-
Cash flows from investing activities:						
Proceeds from (deposits into) investments	429,608	257,699	3,279,626	3,498	3,970,431	171,362
Interest on investments	7,351	1,789	38,971	362	48,473	3,471
Net cash provided by investing activities	436,959	259,488	3,318,597	3,860	4,018,904	174,833
Net (decrease) in cash and cash equivalents	371,642	113,936	(1,007,372)	29,296	(492,498)	144,018
Cash and cash equivalents at beginning of year	1,169,438	516,032	5,632,446	88,567	7,406,483	547,461
Cash and cash equivalents at end of year	\$ 1,541,080	629,968	4,625,074	117,863	6,913,985	691,479



City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2013

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
<i>Continued from previous page</i>						
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 116,722	(215,837)	(1,576,416)	118,504	(1,557,027)	(11,298)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/Amortization	596,813	856,322	1,496,074	-	2,949,209	-
Change in assets and liabilities:						
(Increase) decrease in receivables	26,217	(3,039)	339,941	(1,303)	361,816	-
(Increase) decrease in inventory	(16,928)	(6,787)	(98,684)	-	(122,399)	-
(Increase) decrease in prepaid expense	-	-	-	-	-	(19,517)
Increase (decrease) in accounts payable	82,612	(399,573)	(290,116)	(40,272)	(647,349)	-
Increase (decrease) in accrued expenses	2,307	1,329	(1,508)	33	2,161	-
Increase (decrease) in compensated absences	(18,703)	3,084	(77,429)	(2,718)	(95,766)	-
Increase in deposits held	-	-	16,585	-	16,585	-
Increase (decrease) in other postemployment benefits	2,795	2,578	4,280	242	9,895	-
Total adjustments	675,113	453,914	1,389,143	(44,018)	2,474,152	(19,517)
Net cash provided (used) by operating activities	\$ 791,835	238,077	(187,273)	74,486	917,125	(30,815)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:</b>						
Current assets:						
Unrestricted assets:						
Cash, cash equivalents and pooled investments	\$ 986,208	372,506	4,745,790	89,972	6,194,476	722,467
Restricted assets:						
Cash and pooled investments:						
Revenue note retirement	370,000	266,000	-	-	636,000	-
Water bond reserve	254,000	-	-	-	254,000	-
Electric security deposit	-	-	70,000	-	70,000	-
Customer deposits & project share	-	-	106,527	-	106,527	-
Sanitation totes	-	-	-	33,165	33,165	-
	624,000	266,000	176,527	33,165	1,099,692	-
Total cash, cash equivalents and pooled investments	1,610,208	638,506	4,922,317	123,137	7,294,168	722,467
Less items not meeting definition of cash and cash equivalent:						
Certificates of deposit	(35,099)	(4,335)	(150,922)	(2,678)	(193,034)	(15,734)
Iowa Public Agency Investment Trust	(34,029)	(4,203)	(146,321)	(2,596)	(187,149)	(15,254)
	(69,128)	(8,538)	(297,243)	(5,274)	(380,183)	(30,988)
Cash and cash equivalents at year end	\$ 1,541,080	629,968	4,625,074	117,863	6,913,985	691,479

Exhibit I

City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2013

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
<i>Continued from previous page</i>						
<b>Non-cash investing, capital and financing activities:</b>						
Current issuance cost expense, prior cash outlay	\$ 3,262	3,258	-	-	6,520	-
Current discount amortization, prior cash receipt	3,233	-	-	-	3,233	-

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

While the South Central Regional Airport Agency did not fit the criteria to be included as a component unit, disclosure about the nature of the relationship and accountability is required. The City of Pella, City of Oskaloosa and Mahaska County have entered into a 28E Agreement known as the South Central Regional Airport Agency. The City of Pella appoints 3 of the 6 members on the board. Four votes are required for a majority to approve matters. Capital expenditures are reimbursed 90% by the Federal Aviation Authority, 5% by the City of Pella and 5% by the City of Oskaloosa. Operating expenditures are reimbursed 60% by the City of Pella and 40% by the City of Oskaloosa. The South Central Regional Airport Agency had a separate audit. Financial statements are available at the Pella City Hall, 825 Broadway Street, Pella, IA 50219 or the Oskaloosa City Hall, 220 S. Market St., Oskaloosa, IA 52577, 641-673-9431.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the City's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

*Net invested in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues from general and emergency levies and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

The Debt Service Fund is used to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Gardens Trust, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Cash, Cash Equivalents and Pooled Investments - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2013 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2012.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of five years.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Position consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2013.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

*Nonspendable* - Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

*Restricted* – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

*Committed* – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the City Council through ordinance or resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same action it employed to commit those amounts.

*Unassigned* – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the community and economic development and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2013 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2013 are as follows:

Certificates of deposit	\$	254,882
Iowa Public Agency Investment Trust		247,083
Money Market Liquid Funds		41,320
Government Bonds		14,058
Total	\$	<u>557,343</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) **Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$248,143, \$46,934, \$38,982 and \$16,787, respectively.



(4) **Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in	Net Charges for Service
		Allowance	
Water	\$ 2,045,011	(5,107)	2,039,904
Wastewater	1,860,425	(1,080)	1,859,345
Electric	16,564,808	(10,571)	16,554,237
Sanitation	622,686	(121)	622,565

(5) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) **Emission Credits**

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2013 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2012	Earned	Used/ Transferred	Bought/Sold	6/30/2013	Each	Total
SO2 (1 Ton)	8,600	0	-108	0	8,492	\$0.60	\$ 5,095
SO2 (.5 Ton)	5,292	1,764	0	0	7,056	0.60	4,234
Nox(Annual)	153	140	-76	0	217	38.00	8,246
Nox(Seasonal)	119	63	-1	0	181	21.00	3,801
Total	14,164	1,967	-185	0	15,946		\$ 21,376

(7) **Capital Assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

<b>Primary Government:</b>	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,450,589	-	-	5,450,589
Construction in progress:				
Washington & Broadway Intersection	-	91,505	-	91,505
Renovation of Indoor Pool	-	115,767	-	115,767
Hazel St. Reconstruction	-	35,049	-	35,049
Sports Park	-	1,874,609	-	1,874,609
East 3rd St	11,340	152,942	164,282	-
West 1st St. Reconstruction	12,167	225,858	238,025	-
Total capital assets not being depreciated	5,474,096	2,495,730	402,307	7,567,519
Capital assets being depreciated:				
Vehicles	1,094,947	300,021	-	1,394,968
Buildings and improvements	25,645,193	26,739	-	25,671,932
Machinery and equipment	5,676,460	62,206	132,195	5,606,471
Infrastructure	20,818,343	402,307	-	21,220,650
Total capital assets being depreciated	53,234,943	791,273	132,195	53,894,021
Less accumulated depreciation for:				
Vehicles	574,242	158,869	-	733,111
Buildings and improvements	6,302,001	672,435	-	6,974,436
Machinery and equipment	5,120,368	103,770	132,195	5,091,943
Infrastructure	7,201,980	612,037	-	7,814,017
Total accumulated depreciation	19,198,591	1,547,111	132,195	20,613,507
Total capital assets being depreciated net	34,036,352	(755,838)	-	33,280,514
<b>Governmental activities capital assets, net</b>	<b>\$ 39,510,448</b>	<b>1,739,892</b>	<b>402,307</b>	<b>40,848,033</b>

(7) *Capital assets (continued from previous page)*

**Business type activities:**

**Water Fund:**

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
E 3rd St. Water	4,620	59,567	64,187	-
W 1st St. Water Main	1,914	40,157	42,071	-
Hazel Water Main	-	3,439	-	3,439
Membrane Treatment Addition	-	68,232	-	68,232
South Tower Painting	-	205,521	-	205,521
Total capital assets not being depreciated	124,894	376,916	106,258	395,552

Capital assets being depreciated:

Buildings and improvements	9,754,111	-	-	9,754,111
Machinery and equipment	935,914	27,263	-	963,177
Furniture and fixtures	1,079	-	-	1,079
Vehicles	94,043	-	-	94,043
Infrastructure	5,531,783	225,572	-	5,757,355
Total capital assets being depreciated	16,316,930	252,835	-	16,569,765

Less accumulated depreciation for:

Buildings and improvements	5,977,311	265,217	-	6,242,528
Machinery and equipment	549,182	104,078	-	653,260
Furniture and fixtures	1,079	-	-	1,079
Vehicles	83,797	6,880	-	90,677
Infrastructure	2,605,380	220,638	-	2,826,018
Total accumulated depreciation	9,216,749	596,813	-	9,813,562

Total capital assets being depreciated net

	7,100,181	(343,978)	-	6,756,203
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**Water - capital assets, net**

\$ 7,225,075	32,938	106,258	7,151,755
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(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Wastewater Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
IDNR Bypass Mandate Improvements	746,311	1,488,453	-	2,234,764
Hazel St. Sewer	-	1,310	-	1,310
East 3rd St. Sewer	26,444	286,709	313,153	-
West 1st Sanitary Sewer	1,332	36,850	38,182	-
Lift Station #2 Force Main	953	30,782	-	31,735
Total capital assets not being depreciated	1,682,089	1,844,104	351,335	3,174,858
Capital assets being depreciated:				
Buildings and improvements	17,608,351	-	-	17,608,351
Machinery and equipment	700,987	62,152	-	763,139
Furniture and fixtures	4,154	-	-	4,154
Vehicles	297,372	26,502	-	323,874
Infrastructure	8,078,211	516,342	-	8,594,553
Total capital assets being depreciated	26,689,075	604,996	-	27,294,071
Less accumulated depreciation for:				
Buildings and improvements	12,451,148	461,212	-	12,912,360
Machinery and equipment	492,976	33,134	-	526,110
Furniture and fixtures	4,154	-	-	4,154
Vehicles	213,521	41,798	-	255,319
Infrastructure	4,040,624	320,178	-	4,360,802
Total accumulated depreciation	17,202,423	856,322	-	18,058,745
Total capital assets being depreciated net	9,486,652	(251,326)	-	9,235,326
<b>Wastewater - capital assets, net</b>	<b>\$ 11,168,741</b>	<b>1,592,778</b>	<b>351,335</b>	<b>12,410,184</b>

(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Electric Fund:</b>				
Capital assets not being depreciated/amortized:				
Land	\$ 881,078	-	-	881,078
Construction in progress:				
Ins. Settings-Feeder Breakers	11,370	-	-	11,370
Diesel Plant Controls	-	16,536	-	16,536
Diesel Plant RICE	56,644	561,147	617,791	-
Sub D Area Conversion	-	60,777	-	60,777
Clark St. Substation	952,345	2,339,751	3,292,096	-
Total capital assets not being depreciated/amortized	1,901,437	2,978,211	3,909,887	969,761
Capital assets being depreciated/amortized:				
Buildings and improvements	20,062,310	-	-	20,062,310
Machinery and equipment	29,769,332	4,416,959	-	34,186,291
Furniture and fixtures	16,988	-	-	16,988
Vehicles	416,534	179,858	3,000	593,392
Intangibles	8,460,000	-	-	8,460,000
Total capital assets being depreciated/amortized	58,725,164	4,596,817	3,000	63,318,981
Less accumulated depreciation/amortization for:				
Buildings and improvements	10,320,642	305,121	-	10,625,763
Machinery and equipment	10,759,471	879,888	-	11,639,359
Furniture and fixtures	16,988	-	-	16,988
Vehicles	402,566	18,621	3,000	418,187
Intangibles	20,889	292,444	-	313,333
Total accumulated depreciation/amortization	21,520,556	1,496,074	3,000	23,013,630
Total capital assets being depreciated/amortized net	37,204,608	3,100,743	-	40,305,351
<b>Electric-capital assets, net</b>	<b>\$ 39,106,045</b>	<b>6,078,954</b>	<b>3,909,887</b>	<b>41,275,112</b>

(7) **Capital assets (continued from previous page)**

**Combining Schedule**

**Business type activities:**

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated/amortized:				
Land	\$ 1,906,487	-	-	1,906,487
Construction in progress	1,801,933	5,199,231	(4,367,480)	2,633,684
Total capital assets not being depreciated/amortized	3,708,420	5,199,231	(4,367,480)	4,540,171
Capital assets being depreciated/amortized:				
Total capital assets being depreciated/amortized	101,731,169	5,454,648	(3,000)	107,182,817
Total accumulated depreciation/amortization	47,939,728	2,949,209	(3,000)	50,885,937
Total capital assets being depreciated/amortized (net)	53,791,441	2,505,439	-	56,296,880
<b>Business type activities capital assets, net</b>	<b>\$ 57,499,861</b>	<b>7,704,670</b>	<b>(4,367,480)</b>	<b>60,837,051</b>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:

Public works	\$ 791,920
Public safety	148,286
Culture and recreation	478,079
General government	128,826

Total depreciation expense - governmental activities

1,547,111

Business type activities:

Water	\$ 596,813
Wastewater	856,322
Electric	1,496,074

Total depreciation/amortization expense - business type activities

\$ 2,949,209

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2013:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental activities:</b>						
General obligation bonds/notes	\$ 3,935,000	-	820,000	3,115,000	850,000	2,265,000
Unamortized premium	38,261	-	13,118	25,143	13,118	12,025
Compensated absences	398,930	153,025	94,667	457,288	94,667	362,621
Net OPEB liability	50,969	18,561	2,154	67,376	-	67,376
<b>Total governmental activities</b>	<b>\$ 4,423,160</b>	<b>171,586</b>	<b>929,939</b>	<b>3,664,807</b>	<b>957,785</b>	<b>2,707,022</b>
<b>Business type activities:</b>						
Revenue bonds/notes (gross)	\$ 4,952,767	2,147,861	606,000	6,494,628	810,000	5,684,628
Unamortized premium	-	-	-	-	-	-
Compensated absences	492,236	(16,472)	79,294	396,470	79,294	317,176
Net OPEB liability	41,197	11,634	1,739	51,092	-	51,092
Total	5,486,200	2,143,023	687,033	6,942,190	889,294	6,052,896
Unamortized discount	(9,427)	-	3,233	(6,194)	-	(6,194)
<b>Total business type activities</b>	<b>\$ 5,476,773</b>	<b>2,143,023</b>	<b>690,266</b>	<b>6,935,996</b>	<b>889,294</b>	<b>6,046,702</b>

(8) **Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Four issues of unmatured general obligation bonds/notes totaling \$3,115,000 are outstanding at June 30, 2013. General obligation bonds/notes bear interest rates ranging from 3.00% to 4.10% per annum and mature in varying annual amounts, ranging from \$115,000 to \$380,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2013 are as follows:

Governmental activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2013
General and essential corporate purpose	2006	3.90-4.05%	June 1, 2016	\$245,000-270,000	\$ 2,260,000	770,000
General and essential corporate purpose	2008A	3.15-3.90%	June 1, 2018	125,000-150,000	1,230,000	685,000
General and essential corporate purpose	2008B	3.20-4.10%	June 1, 2020	115,000-150,000	1,420,000	915,000
Essential corporate purpose	2010A	3.00%	June 1, 2015	365,000-380,000	2,115,000	745,000
Total governmental activities						<u>\$ 3,115,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt		
	Principal	Interest	Total
2014	\$ 850,000	113,113	963,113
2015	885,000	84,508	969,508
2016	525,000	54,158	579,158
2017	275,000	33,788	308,788
2018	285,000	23,272	308,272
2019-2020	295,000	18,172	313,172
Total	<u>\$3,115,000</u>	<u>327,011</u>	<u>3,442,011</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O Debt-Refunding Urban renewal	2010A	2,115,000	Not subject to call

(8) *Long-Term Liabilities (continued from previous page)*

Revenue Notes

Five issues of unmatured revenue notes totaling \$6,494,627 are outstanding at June 30, 2013. These notes bear interest at rates ranging from 3.00% to 3.70% per annum and mature in varying annual amounts ranging from \$29,000 to \$370,000 with the final maturity due in the year ending June 30, 2029.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2013, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2013, are as follows:

Business type activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2013
Wastewater	1999	1.75%	June 1, 2021	\$150,000-197,000	\$ 2,800,000	1,382,000
Wastewater	2000	1.75%	June 1, 2021	87,000-116,000	1,604,000	805,000
Wastewater	2000	1.75%	June 1, 2021	29,000-39,000	641,000	269,000
Water refunding	2007	3.65-3.70%	June 1, 2015	295,000-370,000	2,540,000	665,000
SRF Drawdown - final amounts not yet established				174,000-272,000	Not Final	3,373,628
						6,494,628
Unamortized discount						(6,194)
Total business type activities -Net revenue bonds						<u>\$ 6,488,434</u>



(8) **Long-Term Liabilities (continued from previous page)**

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds				Total	
	Water		Wastewater		Principal	Interest
	Principal	Interest	Principal	Interest		
2014	\$ 370,000	24,605	440,000	42,980	810,000	67,585
2015	295,000	10,915	456,000	38,325	751,000	49,240
2016	-	-	474,000	33,495	474,000	33,495
2017	-	-	492,000	28,455	492,000	28,455
2018	-	-	509,000	23,205	509,000	23,205
2019-2023	-	-	2,105,000	35,998	2,105,000	35,998
2024-2028	-	-	1,279,000	-	1,279,000	-
2029	-	-	74,628	-	74,628	-
Total	\$ 665,000	35,520	5,829,628	202,458	6,494,628	237,978

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Water refunding	2007	2,540,000	Not subject to call
Wastewater	2010	SRF Drawdown-final amount not determined	

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2013:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 1,015,000	-	(350,000)	665,000
Unamortized discount	(9,427)	-	3,233	(6,194)
Net water revenue notes	1,005,573	-	(346,767)	658,806
Sewer revenue notes	3,937,767	2,147,861	(256,000)	5,829,628
Net sewer revenue notes	3,937,767	2,147,861	(256,000)	5,829,628
Electric revenue notes	-	-	-	-
Unamortized discount	-	-	-	-
Net electric revenue notes	-	-	-	-
Total net revenue notes	\$ 4,943,340	2,147,861	(602,767)	6,488,434

The \$2,147,860 increase in sewer revenue notes is from the SRF loan fund. It is a partial draw down on a loan that has been approved to be up to \$4,800,000. It is estimated that the funds may be distributed through the fall of 2013 with the first estimated payment to begin 6/1/2014. Actual interest and principal payments will be determined by the timing and extent of the actual funds borrowed. Principal payments for the purpose of this report were based on the estimated amortization tables provided, and no interest on these funds were included. Interest, once the loan is finalized, is estimated to be at 3.00%.

(8) **Long-Term Liabilities (continued from previous page)**

Advanced Refunding – November 1, 2011, the City sold their share in the WS-4 electric plant which provided the resources for \$12,045,000 of advance refunding on the City's electric bonds dated April 2004, June 2005 and January 2010. As a result, the advance refunded bonds are considered defeased and the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As of June 30, 2013, \$600,000 of bonds considered defeased are still outstanding.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$128,334 is all direct debt costs and interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
<b>Governmental activities:</b>				
G.O. bond	\$ 4,330	-	(1,484)	2,846
<b>Business type activities:</b>				
Sewer SFR Loan	88,262	-	(3,258)	85,004
Water revenue note	9,514	-	(3,262)	6,252
Electric revenue note	-	-	-	-
Total business type:	97,776	-	(6,520)	91,256
Total deferred issuance costs	\$ 102,106	-	(8,004)	94,102

(9) **Interfund Transfers**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	\$ 599,399
	Local option sales tax	227,800
	Sanitation	54,960
		<u>882,159</u>
	Special Revenue:	
Debt Service	Pella Business Corridor- TIF	526,940
	Wastewater	159,810
		<u>686,750</u>
	Special Revenue:	
Electric	Local option sales tax	<u>60,777</u>
Special Revenue:		
Road use	General	<u>327,800</u>
Capital Projects	General	174,000
	Electric	18,770
	Water	13,800
	Wastewater	13,800
	Special Revenue:	
	Local option sales tax	973,430
	Road use	606,197
	Pella Business Corridor- TIF	128,159
		<u>1,928,156</u>

(10) Net Position Restricted by Enabling Legislation

The components of Net Restricted Position listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Nonexpendable:		
Customer Deposits	\$ -	70,000
Prepaid expenditures	1,980	-
Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Permanently restriction donation - Van Gorp Trust	100,000	-
Expendable:		
Debt restricted - Water Bond Reserve	-	254,000
Other - deposits	-	33,165
Special purposes:		
TIF - High Point	55	-
TIF - Pella Business Corridor	1,837,399	-
Road use	634,162	-
Local Option Sales Tax	1,058,787	-
Pella Clothing Bank	1,212	-
Police Reserve	1,197	-
Community Development	4,918	-
Library Gifts/Memorials	94,001	-
Pella Community Center	664	-
Pella Community Center Van Trust	1,717	-
Art Center	17,073	-
Airport	38,685	-
Police Asset Forfeiture	63,012	-
Soccer Complex	170	-
Community Gardens Trust Fund	2,106	-
Community Service Scholarship Trust	77	-
Parks Development	23,478	-
Carnegie-Viersen Trust Earnings - Educational purposes	35,099	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	34,446	-
Van Gorp Trust Earnings - Information Windmill Repairs	12,509	-
Total net restricted funds/position	\$ 4,002,747	357,165

(11) Retirement Plans

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011, were \$362,466, 379,803, and \$315,024, respectively, equal to the required contributions for each year.

**(11) Retirement Plans (continued from previous page)**

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, is 26.12% of earnable compensation. Contribution rates are established by state statute. The City's contribution to the Plan for the years ended June 30, 2013, 2012 and 2011 were \$200,581, \$171,009, and \$137,243, respectively, which met the required minimum contribution for each year.

**(12) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 89 eligible, 75 active and one retired member in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFDRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 30,030
Interest on net OPEB obligation	3,687
Adjustment to annual required contribution	(3,522)
Annual OPEB cost	30,195
Contributions made	(3,893)
	<hr/>
Increase in net OPEB obligation	26,302
Net OPEB obligation beginning of year	92,166
	<hr/>
Net OPEB obligation end of year	\$ 118,468

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2013, the City contributed \$3,893 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$82,375, or 10% of the established premium, through their required contribution of \$47 or \$99 per month, depending on whether single or family coverage is elected. There was one retiree covered during the 2013 fiscal year.

(12) **Other Postemployment Benefits (continued from previous page)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	\$ 45,156
June 30, 2011	20,780	4.4%	65,936
June 30, 2012	26,230	4.0%	92,166
June 30, 2013	30,195	4.0%	118,468

**Funded Status and Funding Progress** - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$256,727, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$256,727. The covered payroll (for the year ended June 30, 2013) was approximately \$4,522,000 and the ratio of the UAAL to covered payroll was 5.7%. As of June 30, 2013, there were no trust fund assets.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 8.5%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$867 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(13) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust for the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

**(13) Deferred Compensation Plan (continued from previous page)**

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

**(14) Related Party Transactions**

The City had business transactions between the City and Council members totaling \$144,467 during the year ended June 30, 2013. There were no related payables at June 30, 2013.

**(15) Major Customer**

During the year ended June 30, 2013, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,506,223 and \$2,496,100 of electric power. These charges represent 21.18% and 15.08%, respectively, of total charges for electric services.

**(16) Risk Management**

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Shared Funding/Partial Self-Funding Health Care Plan – The City of Pella entered into a 28E agreement on July 7, 2009, as allowed by Chapter 28E of the Code of Iowa which authorizes the joint exercise of governmental powers that would include a cooperative agreement to create and maintain a health benefit program. The participating agencies join together to form the Iowa Governmental Health Care Plan (IGHCP). IGHCP is a benefits trust for shared risk pooling among Public Employers in the State of Iowa. Its unique design allows entities to enter into the trust based on claims experience, plan design and demographics. The entities are then pooled at renewal, using total claims experience to develop renewal percentages.

IGHCP purchases a high deductible health insurance plan from Wellmark, Blue Cross/Blue Shield. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the City for claims incurred is limited by the spread between the deductibles and out-of-pocket maximums and those of the policy carried by the City. For 2012, the risk spread for employees with single coverage was \$2,750 per employee and for those with family coverage was \$5,500 per employee. The total risk in 2012 was \$396,000. In 2013, the risk spread was \$2,750 for employees with single coverage and \$5,500 for employees with family coverage. Total risk in 2013 was \$349,250 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2013, the plan held \$722,467 cash and pooled investments. The actuarial estimate of the reserves necessary for the claims incurred but not yet paid was \$25,000, which is listed as the accounts payable balance of the Internal Service Fund.

(17) Commitments

The City has entered into several contracts totaling \$7,452,873. At June 30, 2013, \$4,098,774 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
EQ Basin			
CL Carroll Company, Inc.	\$ 1,902,807	1,807,666	95%
Clark St. Substation			
Harold K Scholz Company	1,429,821	1,246,275	87%
Broadway & Washington Intersection			
TK Concrete Inc	262,535	55,872	21%
Hazel Street Reconstruction			
Blommers Construction	590,755	57,222	10%
South Tower Painting			
Central Tank Coatings, Inc	327,000	188,600	58%
Lift Station #2 Force Main			
Dave Schmitt Construction	826,845	-	0%
South Water Tank Rehabilitation			
Howard R Green Company	39,500	26,351	67%
Lift Station #2 Force Main			
Howard R Green Company	20,000	17,069	85%
Membrane Treatment Addition			
Howard R Green Company	945,500	68,076	7%
Water System Analysis			
Howard R Green Company	99,000	90,226	91%
Indoor Pool Renovations			
Shive Hattery	232,000	115,199	50%
Hazel Street Reconstruction			
Garden & Associates, Ltd	107,800	39,328	36%
Sports Park			
Civil Design Advantage LLC	436,710	272,732	62%
Sub D Area Conversion			
DGR Engineering	153,600	50,240	33%
Power Plant Decommissioning			
Burns & McDonnell	79,000	63,918	81%
	<u>\$ 7,452,873</u>	<u>4,098,774</u>	

**(17) Commitments (continued from previous page)**

Other Contracts:		Expires:
Power Supply Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Transmission Service Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
MISO Market Implementation Agreement		
Missouri River Energy Services	Monthly charges	12/31/2045
Dedicated Capacity Agreement		
Missouri River Energy Services	Monthly revenue	12/31/2018
Solid Waste Collection		
Kal Services, Inc.	per tote	7/31/2015

**(18) Contingent Liability and Gain**

The City has been awarded \$788,000 from a lawsuit filed concerning construction of certain parts of the new aquatic center. The matter proceeded to trial July, 2011 and, while judgment was made in favor of the City, action related to collection of the judgment is ongoing. The success of collection of this judgment is unknown at this time.

**(19) Subsequent Events**

The City awarded a bid on December 3, 2013, for the Demolition Contract and performance Bond for the Power Plant Deconstruction project. The total project cost bid is \$2,354,000. Funding for the project will be from the \$3,500,000 Electric Revenue Capital Notes approved by Council on January 21, 2014. The bond proceeds are to be used as follows:

Power Plant Deconstruction Project	\$2,354,000
S.E. Electrical Underground Conversion Project	571,000
Diesel Plant Control System Upgrade	<u>575,000</u>
Total	<u>\$3,500,000</u>

The City awarded a bid on December 17, 2013 to Garling Construction, for the renovation of the City's indoor pool. Funding for the project will be provided from the issuance of \$3,200,000 Local Option Sales and Service Tax General Obligation bonds, expected to be approved by Council in March of 2014.



### **Required Supplementary Information**

**City of Pella, Iowa**  
**Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances**  
**Budget and Actual (Modified Accrual Basis)**  
**Governmental and Proprietary Funds**  
**Required Supplementary Information**  
**Year ended June 30, 2013**

	Budgeted Amounts					
	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Property taxes	\$ 3,851,629	-	3,851,629	3,853,126	3,853,126	(1,497)
Tax increment financing	1,460,029	-	1,460,029	1,488,931	1,488,931	(28,902)
Other city taxes	1,402,771	-	1,402,771	1,333,844	1,333,844	68,927
Licenses and permits	93,058	-	93,058	53,200	53,200	39,858
Use of money and property	49,831	101,675	151,506	194,572	194,572	(43,066)
Intergovernmental	1,764,581	-	1,764,581	1,690,145	1,690,145	74,436
Charges for services	405,978	22,522,756	22,928,734	22,048,205	22,048,205	880,529
Special Assessments	-	-	-	-	-	-
Miscellaneous	1,190,810	190,629	1,381,439	116,900	1,364,417	17,022
Total revenues	10,218,687	22,815,060	33,033,747	30,778,923	32,026,440	1,007,307
Expenditures:						
Public safety	1,847,144	-	1,847,144	1,848,825	1,857,325	10,181
Public works	1,114,288	-	1,114,288	1,196,988	1,196,988	82,700
Culture and recreation	1,909,927	-	1,909,927	1,888,975	1,930,313	20,386
Community and economic development	620,265	-	620,265	590,027	590,027	(30,238)
General government	520,791	-	520,791	478,711	560,658	39,867
Debt service	962,228	-	962,228	962,078	962,078	(150)
Capital projects	3,052,512	-	3,052,512	2,281,531	4,049,647	997,135
Business type activities	-	29,268,850	29,268,850	29,577,969	28,692,602	(576,248)
Total expenditures	10,027,155	29,268,850	39,296,005	38,825,104	39,839,638	543,633
Excess (deficiency) of revenues over (under) expenditures	191,532	(6,453,790)	(6,262,258)	(8,046,181)	(7,813,198)	1,550,940
Other financing sources (uses):						
Operating transfers in	3,824,865	60,777	3,885,642	13,082,940	13,082,940	9,197,298
Operating transfers out	(3,624,502)	(261,140)	(3,885,642)	(13,082,940)	(13,082,940)	(9,197,298)
Unrealized gains(losses) on investments	(295)	-	(295)	-	-	295
Debt Proceeds	-	2,147,860	2,147,860	3,391,000	3,391,000	1,243,140
Proceeds from sale of assets	20,700	3,867	24,567	-	-	(24,567)
Total other financing sources	220,768	1,951,364	2,172,132	3,391,000	3,391,000	1,218,868
Excess (deficiency) of revenues and other financing sources over (under) expenditures	412,300	(4,502,426)	(4,090,126)	(4,655,181)	(4,422,198)	332,072
Balance beginning of year	5,794,997	20,554,328	26,349,325	15,938,132	25,438,727	910,598
Balance end of year	\$ 6,207,297	16,051,902	22,259,199	11,282,951	21,016,529	1,242,670

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

**City of Pella, Iowa**  
**Budgetary Comparison Schedule**  
**Proprietary-GAAP to Modified Accrual Reconciliation**  
**Required Supplementary Information**  
**Year ended June 30, 2013**

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 22,815,060	-	22,815,060
Expenses:			
Business type activities	24,815,984	4,452,866	29,268,850
Excess (deficiency) of revenues under expenses	(2,000,924)	(4,452,866)	(6,453,790)
Other financing sources (uses):			
Operating transfers to other funds	(200,363)	-	(200,363)
Sale of fixed assets	3,867	-	3,867
Debt proceeds	-	2,147,860	2,147,860
Total other financing sources (uses)	(196,496)	2,147,860	1,951,364
Increase in net position	(2,197,420)	(2,305,006)	(4,502,426)
Beginning net position	63,817,721	(43,263,393)	20,554,328
Ending net position	\$ 61,620,301	(45,568,399)	16,051,902

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$4,452,866 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

**City of Pella, Iowa**  
**Notes to Required Supplementary Information - Budgetary Reporting**  
**Year ended June 30, 2013**

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The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$1,247,517, increased budgeted disbursements by \$1,014,524. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements in the community and economic development, business type activities, and debt service functions exceeded the amounts budgeted.

City of Pella, Iowa  
Schedule of Funding Progress for the Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -	199,000	199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2009	-	199,000	199,000	0.0%	4,259,187	4.7%
2011	July 1, 2009	-	199,000	199,000	0.0%	4,202,220	4.7%
2012	July 1, 2011	-	256,727	256,727	0.0%	4,543,545	5.7%
2013	July 1, 2011	-	256,727	256,727	0.0%	4,522,000	5.7%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

**City of Pella, Iowa**

## **Supplementary Information**

## Schedule 1

**City of Pella, Iowa**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2013**

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Road Use	Local Option Sales Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial	Pella Community Center
<b>Assets</b>										
Cash and pooled investments	\$ 1,836,481	55	683,230	904,563	-	1,212	1,197	4,918	95,093	664
Receivable:										
Property tax:										
Delinquent	-	-	-	-	2,711	-	-	-	-	-
Succeeding year	-	-	-	-	595,730	-	-	-	-	-
Tax increment financing:										
Delinquent	918	-	-	-	-	-	-	-	-	-
Succeeding year	420,005	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	154,224	-	-	-	-	-	-
Accounts receivable, miscellaneous	-	-	2,767	-	-	-	-	-	-	-
Accrued interest	-	-	-	-	-	-	-	-	5	-
<b>Total assets</b>	<b>\$ 2,257,404</b>	<b>55</b>	<b>685,997</b>	<b>1,058,787</b>	<b>598,441</b>	<b>1,212</b>	<b>1,197</b>	<b>4,918</b>	<b>95,098</b>	<b>664</b>
<b>Liabilities and Fund Balance</b>										
Liabilities:										
Excess of warrants over bank balance	\$ -	-	-	-	2,711	-	-	-	-	-
Accounts payable	-	-	40,759	-	-	-	-	-	1,097	-
Salaries and benefits payable	-	-	11,076	-	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-	-	-	-	-
Deferred revenue:										
Succeeding year property tax	-	-	-	-	595,730	-	-	-	-	-
Succeeding year tax increment financing	420,005	-	-	-	-	-	-	-	-	-
Total liabilities	420,005	-	51,835	-	598,441	-	-	-	1,097	-
Fund balances:										
Nonspendable:										
Permanent trust	-	-	-	-	-	-	-	-	-	-
Restricted for:										
Debt Service	-	-	-	-	-	-	-	-	-	-
Other purposes	1,837,399	55	634,162	1,058,787	-	1,212	1,197	4,918	94,001	664
Total fund balances	1,837,399	55	634,162	1,058,787	-	1,212	1,197	4,918	94,001	664
<b>Total liabilities and fund balance</b>	<b>\$ 2,257,404</b>	<b>55</b>	<b>685,997</b>	<b>1,058,787</b>	<b>598,441</b>	<b>1,212</b>	<b>1,197</b>	<b>4,918</b>	<b>95,098</b>	<b>664</b>

See accompanying independent auditor's report.



## Schedule 1

Special Revenue Funds										Permanent Funds			
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen-Van Gorp Trust Fund	Debt Service	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds	
1,717	18,140	38,683	63,009	170	2,706	77	24,761	35,097	4,114	74,446	112,503	3,902,836	
-	-	-	-	-	-	-	-	-	1,118	-	-	3,829	
-	-	-	-	-	-	-	-	-	274,999	-	-	870,729	
-	-	-	-	-	-	-	-	-	-	-	-	918	
-	-	-	-	-	-	-	-	-	-	-	-	420,005	
-	-	-	-	-	-	-	-	-	-	-	-	154,224	
-	-	-	-	-	-	-	-	-	-	-	-	2,767	
-	-	2	3	-	-	-	1	2	-	-	6	19	
1,717	18,140	38,685	63,012	170	2,706	77	24,762	35,099	280,231	74,446	112,509	5,355,327	
-	-	-	-	-	-	-	-	-	-	-	-	2,711	
-	1,067	-	-	-	-	-	1,284	-	-	-	-	44,207	
-	-	-	-	-	-	-	-	-	-	-	-	11,076	
-	-	-	-	-	600	-	-	-	-	-	-	600	
-	-	-	-	-	-	-	-	-	274,999	-	-	870,729	
-	-	-	-	-	-	-	-	-	-	-	-	420,005	
-	1,067	-	-	-	600	-	1,284	-	274,999	-	-	1,349,328	
-	-	-	-	-	-	-	-	-	-	40,000	100,000	140,000	
-	-	-	-	-	-	-	-	-	5,232	-	-	5,232	
1,717	17,073	38,685	63,012	170	2,106	77	23,478	35,099	-	34,446	12,509	3,860,767	
1,717	17,073	38,685	63,012	170	2,106	77	23,478	35,099	5,232	74,446	112,509	4,005,999	
1,717	18,140	38,685	63,012	170	2,706	77	24,762	35,099	280,231	74,446	112,509	5,355,327	

## Schedule 2

## City of Pella, Iowa

## Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

## Non-Major Other Governmental Funds

Year ended June 30, 2013

	Special Revenue Funds									
	Pella Business Corridor Tax Increment Financing	Highpoint Tax Increment Financing	Road Use	Local option sales tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:										
Property tax	\$ -	-	-	-	595,404	-	-	-	-	-
Tax increment financing	1,460,029	-	-	-	-	-	-	-	-	-
Local option sales tax	-	-	-	944,294	-	-	-	-	-	-
Other City Taxes	-	-	-	-	2,899	-	-	-	-	-
Intergovernmental	-	-	991,368	235,534	-	-	-	-	11,244	-
Use of money and property	1,611	-	-	772	1,096	4	5	22	365	4
Charges for service	-	-	60	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	2,229	-	-	6,405	10,000
Total revenues	1,461,640	-	991,428	1,180,600	599,399	2,233	5	22	18,014	10,004
Expenditures:										
Operating:										
Public Safety	-	-	-	-	-	-	-	-	-	-
Public works	-	-	791,856	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	2,198	-	-	32,680	11,525
Community and economic development	229,498	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Total expenditures	229,498	-	791,856	-	-	2,198	-	-	32,680	11,525
Excess (deficiency) of revenues over (under) expenditures	1,232,142	-	199,572	1,180,600	599,399	35	5	22	(14,666)	(1,521)
Other financing sources (uses):										
Operating transfer in	-	-	327,800	-	-	-	-	-	-	-
Operating transfer (out)	(655,099)	-	(606,197)	(1,262,007)	(599,399)	-	-	-	-	-
Unrealized gains(losses) in investments	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(655,099)	-	(278,397)	(1,262,007)	(599,399)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	577,043	-	(78,825)	(81,407)	-	35	5	22	(14,666)	(1,521)
Fund balances beginning of year	1,260,356	55	712,987	1,140,194	-	1,177	1,192	4,896	108,667	2,185
Fund balances end of year	\$ 1,837,399	55	634,162	1,058,787	-	1,212	1,197	4,918	94,001	664

See accompanying independent auditor's report.

## Schedule 2

Special Revenue Funds										Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Gardens Trust Fund	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Debt Service	Carnegie-Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	274,006	-	-	869,410
-	-	-	-	-	-	-	-	-	-	-	-	1,460,029
-	-	-	-	-	-	-	-	-	-	-	-	944,294
-	-	-	-	-	-	-	-	-	1,174	-	-	4,073
-	-	-	15,000	-	-	-	-	-	-	-	-	1,253,146
4	18	180	170	-	602	-	64	166	65	19	532	5,699
-	-	-	-	-	-	-	-	-	-	-	-	60
-	2,698	-	-	-	-	-	15,726	-	-	-	-	37,058
4	2,716	180	15,170	-	602	-	15,790	166	275,245	19	532	4,573,769
-	-	-	669	-	-	-	-	-	-	-	-	669
-	-	-	-	-	-	-	-	-	-	-	-	791,856
1,930	5,115	-	-	-	198	416	9,389	-	-	-	-	63,451
-	-	-	-	-	-	-	-	-	-	-	-	229,498
-	-	-	-	-	-	-	-	-	962,228	-	-	962,228
1,930	5,115	-	669	-	198	416	9,389	-	962,228	-	-	2,047,702
(1,926)	(2,399)	180	14,501	-	404	(416)	6,401	166	(686,983)	19	532	2,526,067
-	-	-	-	-	-	-	-	-	686,750	-	-	1,014,550
-	-	-	-	-	-	-	-	-	-	-	-	(3,122,702)
-	-	-	-	-	-	-	-	-	-	(295)	-	(295)
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	686,750	(295)	-	(2,108,447)
(1,926)	(2,399)	180	14,501	-	404	(416)	6,401	166	(233)	(276)	532	417,620
3,643	19,472	38,505	48,511	170	1,702	493	17,077	34,933	5,465	74,722	111,977	3,588,379
1,717	17,073	38,685	63,012	170	2,106	77	23,478	35,099	5,232	74,446	112,509	4,005,999

**City of Pella, Iowa**  
**Schedule of Revenues by Sources and Expenditures by Function**  
**All Governmental Funds**  
**For the Last Ten Years**

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Property tax	\$ 3,851,629	3,804,765	3,740,164	3,844,577	3,420,082	2,863,107	2,792,009	2,778,762	2,722,753	2,837,958
Tax increment financing revenue	1,460,029	1,500,001	1,367,004	944,634	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657
Local option sales tax	944,294	954,070	937,924	806,475	1,180,851	875,711	984,332	1,000,702	813,900	851,409
Other city tax	458,477	452,189	417,145	381,025	400,928	516,806	499,706	394,645	366,366	367,213
Licenses and permits	93,058	66,381	50,908	41,960	29,859	18,266	21,369	27,320	30,033	20,427
Use of money and property	49,831	58,294	54,493	65,787	117,224	158,941	177,215	178,192	151,017	120,419
Intergovernmental	1,764,581	2,741,810	2,324,156	2,064,034	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032
Special assessments	-	-	0	-	-	-	44,124	-	-	-
Charges for service	405,978	446,540	385,197	460,177	492,108	411,384	340,054	377,208	353,694	251,492
Miscellaneous	1,190,810	161,446	99,958	125,394	112,268	170,369	406,459	277,790	183,838	516,042
Total	<u>\$ 10,218,687</u>	<u>10,185,496</u>	<u>9,376,949</u>	<u>8,734,063</u>	<u>9,079,273</u>	<u>8,660,090</u>	<u>8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>
Expenditures:										
Operating:										
Public safety	\$ 1,847,144	1,778,204	1,743,896	1,551,122	1,538,082	1,568,486	1,411,218	1,401,296	1,338,999	1,148,456
Public works	1,114,288	1,110,420	1,126,308	1,122,410	1,101,806	1,037,294	1,010,058	911,054	951,204	918,075
Culture and recreation	1,909,927	1,725,022	1,797,234	1,687,573	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734
Community and economic development	620,265	579,804	670,113	479,241	504,894	463,659	541,534	506,050	601,903	262,752
General government	520,791	500,472	583,175	468,360	450,969	344,179	339,003	336,511	338,399	666,256
Debt service	962,228	957,882	977,618	3,719,956	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005
Capital projects	3,052,512	2,048,265	2,666,864	631,463	1,255,727	3,142,731	2,217,218	1,446,816	668,144	3,205,314
Total	<u>\$ 10,027,155</u>	<u>8,700,069</u>	<u>9,565,208</u>	<u>9,660,125</u>	<u>8,039,524</u>	<u>14,055,250</u>	<u>8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>

See accompanying independent auditor's report

## Schedule 4

**City of Pella, Iowa**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2013**

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Justice:			
Governor's Office of Drug Control Policy:			
Human Trafficking Project	16.710	FY 13	<u>\$ 319</u>
Iowa Department of Public Safety:			
Internet Crimes Against Children	16.800	FY 13	<u>1,697</u>
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
Alcohol Impaired Driving Counter Measures	20.601	PAP 11-410, Task 58	<u>2,072</u>
Alcohol Impaired Driving Counter Measures	20.601	PAP 12-410, Task 43	<u>3,117</u>
U.S. Environmental Protection Agency:			
Iowa Finance Authority:			
Clean Water State Revolving Fund	66.458	PDCW-1077	<u>2,147,860</u>
Total indirect			<u>2,155,065</u>
Total			<u><u>\$ 2,155,065</u></u>

See accompanying notes to schedule of expenditures of federal awards

**City of Pella**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Pella for the year ended June 30, 2013. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of states, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Significant Accounting Policies**

For governmental funds, in accordance with the modified accrual basis of accounting, revenue from federal grants is recognized when they become both measureable and available. For proprietary funds, in accordance with the accrued basis of accounting, revenues from federal grants are recognized in the period they are earned. Expenditures of federal awards are recognized in the accounting period when the liability is incurred.

**Note 3. Federal Loan Outstanding**

The City participates in the following loan program for which loan amounts and payments are not required to be included on the schedule of expenditures of federal awards.

<u>CFDA #</u>	<u>Program</u>	<u>Outstanding Balance</u> <u>As of June 30, 2013</u>
66.458	Clean Water State Revolving Fund	\$3,373,628



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**Van Maanen, Sietstra & Meyer, PC**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and Members of the City Council  
City of Pella, Iowa:

Report on Compliance for Each Major Federal Program

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Pella's Responses to Findings

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Pella's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

March 6, 2014





**Independent Auditor's Report on Compliance for Each Major Federal Program,  
on Internal Control over Compliance and on the Schedule of Expenditures  
of Federal Awards Required by OMB Circular A-133**

To the Honorable Mayor and Members of the City Council City of Pella, Iowa:

Report on Compliance for Each Major Federal Program

We have audited the City of Pella's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Pella's major federal programs for the year ended June 30, 2013. The City of Pella's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Pella's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pella's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the City of Pella's compliance.

Opinion on each Major Federal Program

In our opinion, the City of Pella complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### Report on Internal Control Over Compliance

The management of the City of Pella is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Pella's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for major federal programs and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

March 6, 2014

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office Management and Budget Circular A-133, Section .510a).
- (g) The major programs were as follows:
  - CFDA Number 66.458 – Clean Water State Revolving Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Pella qualified as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

No matters were noted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major program were noted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Expenditures for the year ended June 30, 2013, exceeded the budget in the community and economic development, business type activities, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

**City of Pella, Iowa**  
**Schedule of Findings and Questioned Costs**  
**Year ended June 30, 2013**

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- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2013 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Owner of Eagle Electric	Core drills Install Feeder Line	\$ 890 \$2,073
Mark De Jong, Council Member Owner De Jong Greenhouses	Flowers	\$120
David Vander Horst, Council Member Owner of Digital Solutions, Inc.	IT Services	\$141,384

There were no related payables at June 30, 2013.

The first transaction listed, which exceeded \$1,500 may be in conflict with Chapter 362.5(3)(j) of the Code of Iowa. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the second transaction with one of the Council Members does not appear to represent conflict of interest since the total transaction with the individual was less than \$1,500 during the fiscal year. The third transaction with the council member which exceeded \$1,500 does not appear to be a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

Recommendation - The transactions with the first Council Member listed may be in conflict with Chapter 362.5(3)(j) of the Code of Iowa and the City may want to consult legal counsel on this matter.

Response – The City's legal counsel has reviewed all of the above business transactions for potential conflict of interest under the Iowa Code 362.5 (3) (j). The City's transaction with Council Member Bruce Schiebout followed standard city procedures for providing the installation of electric feeder lines. In instances where new feeder lines are extended to commercial customers, the City employs the organization's electrical contractor to minimize the difficulty in scheduling conflicts, avoid the potential distribution of customer's proprietary information, minimize cost and limit the legal liability associated with selecting a City appointed contractor. In this particular case, service needed to be extended to Pella Corporation; Eagle Electric was their electrical contractor.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.
- (9) Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1, 2013.